



**State of Delaware  
Department of Transportation**

**Financial Statements**

**June 30, 2008 and 2007**

**(With Independent Auditors' Report Thereon)**

## Table of Contents

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
Financial Statements	
Balance Sheets .....	9
Statements of Revenues, Expenses, and Change in Fund Net Assets .....	11
Statements of Cash Flows.....	13
Notes to Financial Statements.....	15
Required Supplementary Information	
Supplementary Information for Governments That Use the Modified Approach for Infrastructure Assets .....	55
Additional Information	
Schedule of Revenue Bond Coverage.....	58



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## **Independent Auditor's Report**

Delaware Department of Transportation  
Dover, Delaware:

We have audited the accompanying balance sheets of the State of Delaware Department of Transportation (Department of Transportation), which is an Enterprise Fund of the State of Delaware, as of June 30, 2008 and 2007, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Transportation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the State of Delaware Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Delaware Department of Transportation as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Notes O and P to the financial statements, the Department of Transportation adopted Governmental Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008.

Management's discussion and analysis and required supplementary information for governments that use the modified approach for infrastructure assets on pages 3 through 8 and 55 through 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2008 on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The additional information, as listed in the table of contents and presented on page 58, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or any other form of assurance on the additional information.

KPMG LLP

December 16, 2008

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis**

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2008.

**Background**

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

**Financial Highlights**

- On October 1, 2007, fees were increased for the following Transportation Trust Fund pledged revenue sources: motor vehicle document, registration, title, and driver's license fees, and toll rates on both the Delaware Turnpike and SR-1.
- As a result of the rate increases, total operating revenues increased \$49.2 million to \$428.6 million, a 13% increase over fiscal year 2007.
- The Department took advantage of lower interest rates and went to the bond market in June 2008, issuing \$84.7 million in new senior revenue bonds. The new issue provided for an advance refunding of \$41.3 million of existing bonds. The advance refunding resulted in an economic gain of \$2.3 million.
- Total capital assets (net of depreciation) were \$3,739.0 million at June 30, 2008, and net assets were \$2,949.9 million.

**Overview of the Financial Statements**

The financial section of this annual report consists of five parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, 4) required supplementary information, and 5) additional information.

The financial statements provide both long-term and short-term information about the Department's overall financial status.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and additional information that further explains and supports the information in the financial statements.

The Department's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

**Financial Analysis of the Department**

*Balance Sheets*

The Department's total assets increased \$50.1 million to \$4,091.1 million, and total liabilities decreased \$3.9 million to \$1,141.2 million. Net assets at June 30, 2008 were \$2,949.9 million, a \$54.0 million increase from June 30, 2007.

Department of Transportation's Net Assets  
(in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>Change 2008-2007</u>
Current assets	\$ 279.0	\$ 338.9	\$ (59.9)
Capital assets	3,739.0	3,631.1	107.9
Other noncurrent assets	<u>73.1</u>	<u>71.0</u>	<u>2.1</u>
Total assets	<u>\$4,091.1</u>	<u>\$4,041.0</u>	<u>\$ 50.1</u>
Current liabilities	\$ 160.2	\$ 156.4	\$ 3.8
Noncurrent liabilities	<u>981.0</u>	<u>988.7</u>	<u>(7.7)</u>
Total liabilities	<u>\$1,141.2</u>	<u>\$1,145.1</u>	<u>\$ (3.9)</u>
Net assets			
Invested in capital assets, net of debt	\$2,731.9	\$2,653.3	\$ 78.6
Restricted	150.8	153.8	(3.0)
Unrestricted	<u>67.2</u>	<u>88.8</u>	<u>(21.6)</u>
Total net assets	<u>\$2,949.9</u>	<u>\$2,895.9</u>	<u>\$ 54.0</u>

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

Current assets decreased primarily due to a reduction in unrestricted investment balances at year end due to a substantially smaller new money bond issue. Liabilities were reduced as a result of decreased revenue bonds payable and associated interest payable, which was offset by the recording of post-employment benefit obligations as a result of implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

*Change in Net Assets*

The Department's net assets at June 30, 2008 were \$54.0 million higher than at June 30, 2007. The Department's total operating revenues increased \$49.2 million, and total operating expenses increased \$35.6 million.

Change in the Department of Transportation's Net Assets  
(in millions of dollars)

	<u>2008</u>	<u>2007</u>	<u>Change 2008-2007</u>
Operating revenues	\$ 428.6	\$ 379.4	\$ 49.2
Operating expenses			
Operating expenses	479.8	446.9	32.9
Depreciation	<u>17.1</u>	<u>14.4</u>	<u>2.7</u>
Total operating expenses	<u>496.9</u>	<u>461.3</u>	<u>35.6</u>
Operating loss	(68.3)	(81.9)	13.6
Nonoperating revenues, net	<u>131.6</u>	<u>76.0</u>	<u>55.6</u>
Income (loss) before transfers	63.3	(5.9)	69.2
Transfers, net	<u>(9.3)</u>	<u>67.3</u>	<u>(76.6)</u>
Change in fund net assets	54.0	61.4	(7.4)
Total net assets - beginning of year	<u>2,895.9</u>	<u>2,834.5</u>	<u>61.4</u>
Total net assets - end of year	<u>\$2,949.9</u>	<u>\$2,895.9</u>	<u>\$ 54.0</u>

The October 1, 2007 toll and fee increases were the main contributors for the operating revenue increase; and the largest contributing factors for the increase in operating expenses for fiscal year 2008 were an increase in vehicle operations expense, primarily from higher fuel costs, and the recording of the Department's allocation of post-employment benefit costs.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

Nonoperating revenues increased primarily as a result of the receipt of additional federal grants due to the timing of completion of projects eligible for federal funding. Lastly, due to budget constraints, the allocation from the General Fund to support transportation programs was reduced by \$74 million.

**Capital Assets and Debt Administration**

*Capital Assets*

As of June 30, 2008, the Department had invested \$3,864.5 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2008 totaled \$3,739.0 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$107.9 million over June 30, 2007. Contributing to this increase were several major purchases of rolling stock, the construction of a parking garage, as well as the I-95 expansion project and the US 301 toll road project.

The Department is using the "modified approach" for determining condition assessments on its roads and bridges. The modified approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in fair or better condition and report at least every three years on their condition assessments.

It is the Department's policy to maintain at least 85% of its highway system at a fair or better condition rating and 75% of its bridge system at a good or better condition rating as follows:

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of the bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.



**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

The Department performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year, and bridge condition assessments are conducted every two years.

Of the Department's 1,457 bridges that were rated in 2007, 77.6% received a good or better BCR rating, 17.9% were rated fair, and 4.5% received a substandard rating. Of the 7,289,913 square feet of bridge deck that was rated, 93.4% or 6,809,939 square feet received an OPC condition rating of good or better, 6.2% received a fair rating, and 0.4% received a substandard deck rating.

In 2007, 4,454 center line miles were rated; 89.9% received a fair or better OPC rating and 10.1% received a poor rating.

The 2008 estimate to maintain and preserve the Department's infrastructure was \$197.3 million, but the actual expenditure was \$271.3 million, which is \$74.0 million over the estimate. The estimated expenditures represent annual Bond Bill authorizations; and the actual expenditures represent the current year spending, which includes cumulative authorizations.

*Debt Administration*

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Delaware Transportation Authority (the Authority) to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2008, the Authority had \$992.6 million in revenue bonds outstanding, a 2.6% decrease from June 30, 2007. During fiscal year 2008, the Authority issued Transportation System Senior Revenue Bonds, 2008A Series, in the amount of \$84.7 million resulting in new money of \$43.4 million and an advance refunding of \$41.3 million of previously outstanding bonds. Of the 12 outstanding bond issues, all insured bonds are rated AAA by S&P and Aaa by Moody's; and the uninsured bonds are rated AA+ and Aa3, respectively.

**State of Delaware  
Department of Transportation**

**Management's Discussion and Analysis (Continued)**

The Department's investment portfolio is actively managed by Wilmington Trust Company, and primarily consists of U.S. Government securities, U.S. Government Agency securities, and high-grade commercial paper. The majority of these investments have maturities of less than one year. The Department's bond ratings have allowed continued access to the municipal bond market at favorable interest rates during the current economic downturn.

**Contacting the Department's Financial Management**

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

**State of Delaware  
Department of Transportation**

**Balance Sheets**

**June 30, 2008 and 2007  
See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Unrestricted	\$ 43,139,892	\$ 33,191,838
Restricted	1,699,400	1,611,525
Investments - at fair value		
Unrestricted	74,918,406	155,311,250
Restricted	107,261,707	109,086,650
Accrued interest receivable	736,111	2,099,327
Accounts receivable		
Trade	12,995,857	11,797,726
Federal grant	20,586,439	10,022,824
Loan receivable	1,245,511	1,198,203
Inventory	15,094,216	12,927,684
Escrow insurance deposits	961,223	1,283,817
Prepaid expenses	347,506	356,841
	<hr/>	<hr/>
Total current assets	278,986,268	338,887,685
<b>NONCURRENT ASSETS</b>		
Capital assets, not depreciable		
Land	222,985,693	206,410,807
Infrastructure	3,345,399,099	3,283,783,059
Construction in progress	-	21,240,047
Capital assets, depreciable		
Buildings and improvements	77,470,754	55,050,604
Fixtures and equipment	218,606,693	179,466,325
	<hr/>	<hr/>
	3,864,462,239	3,745,950,842
Less: accumulated depreciation	125,481,084	114,864,034
	<hr/>	<hr/>
Capital assets	3,738,981,155	3,631,086,808
Investments - at fair value		
Unrestricted	7,851,390	3,246,128
Restricted	41,619,183	43,252,196
Accrued interest receivable	80,068	80,203
Loans receivable	22,182,092	23,462,845
Prepaid pension	1,446,927	976,275
	<hr/>	<hr/>
Total noncurrent assets	3,812,160,815	3,702,104,455
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>\$ 4,091,147,083</u>	<u>\$ 4,040,992,140</u>

See notes to financial statements.

**State of Delaware  
Department of Transportation**

**Balance Sheets**

**June 30, 2008 and 2007  
See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and other accrued expenses	\$ 31,430,110	\$ 31,921,171
Accrued payroll	9,604,963	8,526,042
Compensated absences payable	4,148,180	4,013,768
Customer toll deposits	6,040,406	5,174,547
Escrow deposit	1,641,194	1,548,246
Insurance loss reserve	1,888,651	2,457,537
Deferred revenue	3,013,425	4,313,896
General obligation bonds payable	676,105	599,955
Revenue bonds payable - net of deferred amounts on refunding	73,213,228	67,640,000
Bond issue premium - net of accumulated amortization	6,778,782	6,623,371
Interest payable	<u>21,821,745</u>	<u>23,636,964</u>
Total current liabilities	160,256,789	156,455,497
<b>NONCURRENT LIABILITIES</b>		
Compensated absences - net of current portion	9,597,538	9,609,620
Insurance loss reserve - net of current portion	2,542,349	2,377,463
Post-employment benefits payable	25,697,244	-
General obligation bonds payable - net of current portion	2,106,901	2,783,007
Revenue bonds payable - net of deferred amounts on refunding and current portion	919,422,825	951,175,000
Bond issue premium - net of accumulated amortization and current portion	<u>21,585,782</u>	<u>22,730,536</u>
Total noncurrent liabilities	<u>980,952,639</u>	<u>988,675,626</u>
Total liabilities	1,141,209,428	1,145,131,123
<b>NET ASSETS</b>		
Invested in capital assets - net of related debt	2,731,895,872	2,653,213,762
Restricted	150,789,974	153,834,146
Unrestricted	<u>67,251,809</u>	<u>88,813,109</u>
Total net assets	<u>2,949,937,655</u>	<u>2,895,861,017</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 4,091,147,083</u></u>	<u><u>\$ 4,040,992,140</u></u>

**State of Delaware**  
**Department of Transportation**  
**Statements of Revenues, Expenses, and**  
**Change in Fund Net Assets**

**June 30, 2008 and 2007**  
**See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Pledged revenue		
Turnpike revenues	\$ 117,869,057	\$ 96,747,605
Motor vehicle and related revenue	252,944,981	235,432,115
	<hr/>	<hr/>
Total pledged revenue	370,814,038	332,179,720
Toll revenue - Delaware SR-1	40,509,218	32,606,361
Passenger fares	11,921,695	10,617,443
Miscellaneous revenue	5,400,891	3,983,055
	<hr/>	<hr/>
Total operating revenues	428,645,842	379,386,579
OPERATING EXPENSES		
Maintenance, preservation, and repairs	151,125,429	160,684,035
Occupancy expenses	9,871,501	11,276,497
Office expense	7,906,729	7,095,641
Payroll expense	145,740,076	124,216,331
Professional fees	80,118,594	74,849,266
Supplies and other	21,622,992	17,600,583
Vehicle operations	63,397,247	51,160,713
Depreciation	17,062,330	14,374,765
	<hr/>	<hr/>
Total operating expenses	496,844,898	461,257,831
OPERATING LOSS	(68,199,056)	(81,871,252)
NONOPERATING REVENUES (EXPENSES)		
Pledged revenue - income from investments	10,776,335	14,774,453
Income from investments	867,890	1,278,786
Net increase in the fair value of investments	1,187,827	783,536
Federal grant revenue	158,713,360	103,331,185
Grant expenses	(1,973,158)	(1,377,498)
Gain on asset disposal	299,452	420,247
Interest expense	(38,305,211)	(43,207,653)
	<hr/>	<hr/>
Excess of nonoperating revenues over nonoperating expenses	131,566,495	76,003,056

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**State of Delaware**  
**Department of Transportation**  
**Statements of Revenues, Expenses, and**  
**Change in Fund Net Assets (Continued)**

**June 30, 2008 and 2007**  
**See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
INCOME (LOSS) BEFORE TRANSFERS	\$ 63,367,439	\$ (5,868,196)
TRANSFERS TO RIVERFRONT DEVELOPMENT CORPORATION	-	(3,100,000)
TRANSFERS TO DELAWARE DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL	-	(4,060,050)
TRANSFERS TO STATE GENERAL FUND	(11,307,362)	(5,000,000)
TRANSFERS TO OTHER STATE AGENCIES	(3,673,236)	-
TRANSFERS FROM STATE GENERAL FUND	<u>5,689,797</u>	<u>79,408,528</u>
CHANGE IN FUND NET ASSETS	54,076,638	61,380,282
TOTAL FUND NET ASSETS - BEGINNING OF YEAR	<u>2,895,861,017</u>	<u>2,834,480,735</u>
TOTAL FUND NET ASSETS - END OF YEAR	<u><u>\$ 2,949,937,655</u></u>	<u><u>\$ 2,895,861,017</u></u>

See notes to financial statements.

**State of Delaware  
Department of Transportation**

**Statements of Cash Flows**

**June 30, 2008 and 2007  
See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating receipts	\$ 424,755,709	\$ 378,922,125
Payments to suppliers	(333,403,919)	(322,723,677)
Payments to employees	(119,312,233)	(124,623,911)
Insurance claims paid	(2,732,024)	(2,828,819)
Other receipts	<u>1,391,531</u>	<u>1,301,106</u>
Net cash used in operating activities	(29,300,936)	(69,953,176)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from State General Fund	5,689,797	79,408,528
Transfers to State General Fund	(11,307,362)	(5,000,000)
Transfers to other State agencies	<u>(3,673,236)</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	(9,290,801)	74,408,528
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payments of revenue bond principal	(67,640,000)	(61,370,000)
Payments to escrow agent for refunding of revenue bonds	(42,695,663)	(88,415,000)
Proceeds from revenue bond sale	84,720,000	215,335,000
Payments of general obligation bond principal	(599,956)	(865,109)
Premium from revenue bond sale	5,110,752	6,179,669
Proceeds from capital grants	146,176,587	101,698,898
Acquisition of capital assets	(125,798,449)	(65,599,965)
Proceeds from sale of land and equipment	1,141,224	8,428,387
Payments of interest	<u>(46,783,809)</u>	<u>(51,120,184)</u>
Net cash provided by (used in) capital and related financing activities	(46,369,314)	64,271,696
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,743,273,879)	(3,760,915,962)
Proceeds from sale of investments	2,823,707,244	3,661,278,121
Repayment on loan receivable	1,233,445	11,745,028
Escrow insurance deposits	322,594	649,225
Interest received	<u>13,007,576</u>	<u>14,684,920</u>
Net cash provided by (used in) investing activities	94,996,980	(72,558,668)
Net increase (decrease) in cash and cash equivalents	10,035,929	(3,831,620)

Continued...

**State of Delaware  
Department of Transportation**

**Statements of Cash Flows (Continued)**

**June 30, 2008 and 2007  
See Independent Auditors' Report**

	<u>2008</u>	<u>2007</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	\$ 34,803,363	\$ 38,634,983
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 44,839,292</u>	<u>\$ 34,803,363</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Net operating loss	\$ (68,199,056)	\$ (81,871,252)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	17,062,330	14,374,765
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(1,198,131)	1,562,982
(Increase) decrease in inventory	(2,166,532)	161,672
(Increase) decrease in prepaid expenses	9,335	(117,471)
Increase in prepaid pension	(470,652)	(287,391)
Increase (decrease) in accounts payable and other accrued expenses	(491,061)	9,313,729
Increase (decrease) in accrued payroll and related expenses	1,201,251	(120,189)
Decrease in deferred revenue	(1,300,471)	(726,330)
Increase (decrease) in other accrued expenses	554,807	(12,243,691)
Increase in post-employment benefits	25,697,244	-
Net cash used in operating activities	<u>\$ (29,300,936)</u>	<u>\$ (69,953,176)</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest capitalized on Diamond State Port Corporation loan	<u>\$ -</u>	<u>\$ 1,181,392</u>
Transfers of land to Riverfront Development Corporation	<u>\$ -</u>	<u>\$ 3,100,000</u>
Transfers of land to Delaware Department of Natural Resources and Environmental Control	<u>\$ -</u>	<u>\$ 4,060,050</u>

See notes to financial statements.



**State of Delaware  
Department of Transportation**

**Notes to Financial Statements**

**See Independent Auditors' Report**

**Note A - Organization**

The Delaware Department of Transportation (the Department) is an agency of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

The Trust Fund was created by the State, within the Authority, under the Transportation Trust Fund Act of 1987 (the TTF Act). The underlying purpose of the TTF Act and the Trust Fund is to address the growing urgency to provide additional means to finance the maintenance and development of the integrated highway, air, and water transportation system in the State for the economic benefit of the State and for the welfare and safety of the users of the transportation system. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which the Authority owns and operates. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects.

The TTF Act also granted the Authority the power to issue bonds payable from and secured by the revenues pledged and assigned to the Trust Fund.

The Trust Agreements in effect at June 30, 2008 and 2007 are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note A - Organization (Continued)**

The Trust Agreement is a bond indenture, intended to ensure payment to bond holders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department.

The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

**Note B - Summary of Significant Accounting Policies**

**1. Basis of Accounting**

The Department operates as an enterprise fund. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

**2. Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**2. Cash and Cash Equivalents (Continued)**

The Department maintains cash escrow accounts for administrative purposes and has classified these cash balances as restricted. An offsetting liability is recorded in the accompanying balance sheets.

**3. Allowance for Doubtful Accounts**

Accounts receivable are expected to be fully collectible at June 30, 2008 and 2007, and accordingly, a provision for uncollectible accounts has not been established.

**4. Inventory**

Inventory is accounted for at the lower of cost or market. Cost is determined using the weighted average method.

**5. Investments**

Investments are recorded at their fair value. Investments at June 30, 2008 and 2007 consisted of United States Government Obligations and Commercial Paper classified as "Qualified Investments" by the Trust Agreement.

**6. Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**7. Financial Accounting Standards Board (FASB) Pronouncements**

The Department has elected not to apply FASB pronouncements issued after November 30, 1989.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**8. Capital Assets**

Capital assets, which include land, buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the enterprise fund financial statements.

Capital assets are defined by the State as assets with an initial individual cost of more than \$25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize infrastructure when the cost of individual items or projects exceeds \$1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, and equipment are depreciated on a straight-line basis.

Capital assets are defined by DTC as all assets purchased with State and federal grant money as well as any asset with a cost greater than \$5,000 purchased with operating money.

For assets not part of infrastructure, the costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

For infrastructure, the State uses the "modified approach" to account for roads and bridges, as provided by Governmental Accounting Standards Board (GASB) No. 34. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**8. Capital Assets (Continued)**

condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Department maintains two asset management systems, one for the roads and one for the bridges. In addition, the Department completes condition assessments on its roads every year and on its bridges at least every two years.

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 - 40
Fixtures and equipment	3 - 12

**9. Compensated Absences**

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

**10. Bond Issue Premiums/Discounts**

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Net amortization resulted in \$6,679,864 and \$7,078,956 of reductions of interest expense in 2008 and 2007, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note B - Summary of Significant Accounting Policies (Continued)**

**11. Revenues and Expenses**

The Department defines nonoperating revenues as federal grant revenue and investment income. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

**Note C - Cash and Investments**

***Cash Management Policy and Investment Guidelines***

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2008 and 2007, investments of the Department are primarily in U.S. Government securities, U.S. Government agency securities, and Commercial Paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

The Policy is available on the Internet at [www.state.de.us/treasure](http://www.state.de.us/treasure).

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Custodial Credit Risk***

**1. Deposits**

The carrying amounts of the Department's deposits at June 30, 2008 and 2007 were \$44,839,292 and \$34,803,363, respectively, and the bank balances were \$43,486,585 and \$35,937,623, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, \$36,481,098 and \$30,235,171 were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2008 and 2007, respectively. The remaining bank balances of \$7,005,487 and \$5,702,452 were neither insured nor collateralized at June 30, 2008 and 2007, respectively.

As of June 30 2008 and 2007, the Department had part of its cash and cash equivalents of \$4,307,289 and \$4,760,082, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

**2. Investments**

Investments of the Department are stated at fair value. At June 30, 2008 and 2007, all of the Department's investments were insured or registered, with securities held by the Department or the counterparty in the Department's name.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Department accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following tables present a listing of directly held investments and related maturities.

June 30, 2008

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 10,376,674	\$ 4,134,902	\$ 6,241,772	\$ -
U.S. Government Agency Securities	155,597,417	112,368,616	37,770,057	5,458,744
Commercial Paper	<u>65,676,595</u>	<u>65,676,595</u>	<u>-</u>	<u>-</u>
	<u>\$231,650,686</u>	<u>\$182,180,113</u>	<u>\$44,011,829</u>	<u>\$5,458,744</u>

June 30, 2007

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 15,900,311	\$ 7,832,298	\$ 8,068,013	\$ -
U.S. Government Agency Securities	155,547,829	117,117,518	38,430,311	-
Commercial Paper	<u>139,448,084</u>	<u>139,448,084</u>	<u>-</u>	<u>-</u>
	<u>\$310,896,224</u>	<u>\$264,397,900</u>	<u>\$46,498,324</u>	<u>\$ -</u>



**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note C - Cash and Investments (Continued)**

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department follows the Policy and the Trust Agreement by investing only in authorized securities. The Department's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Trust Agreement limits investments in Commercial Paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in Commercial Paper of \$65,676,595 and \$139,448,084 at June 30, 2008 and 2007, respectively. All Commercial Paper held was short-term and rated in accordance with the Trust Agreement. The investments in U.S. Government Agency Securities all carried the highest rating by Moody's and Standard & Poor's. All remaining investments were in U.S. Government Securities, which carry no credit risk.

***Investments in Excess of 5%***

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2008:

Federal National Mortgage Association	\$85,111,688	37%
Federal Home Loan Mortgage Corporation	70,485,729	30%
Toyota Motor Credit Company Note	15,000,000	6%

***Investment Commitments***

The Department has made no investment commitments as of June 30, 2008.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note D - Accounts and Loans Receivable**

Accounts and loans receivable at June 30, 2008 and 2007 are detailed as follows:

	<u>2008</u>	<u>2007</u>
Receivables		
Interest	\$ 816,179	\$ 2,179,530
Trade	12,995,857	11,797,726
Federal grant	20,586,439	10,022,824
Loans	<u>23,427,603</u>	<u>24,661,048</u>
Total receivables	57,826,078	48,661,128
Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total receivables - net of allowance	<u>\$57,826,078</u>	<u>\$48,661,128</u>
Amounts not scheduled for collection during the subsequent year	<u>\$22,262,160</u>	<u>\$23,543,048</u>

During fiscal year 2002, the Trust Fund loaned \$27,500,000 to Diamond State Port Corporation. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semi-annual payments of \$1,058,920 with the final payment to be made in January 2023. The loan was subsequently restructured four times, and interest in the amount of \$4,479,405 was capitalized. The State paid \$10,000,000 towards the principal of the loan on behalf of the Diamond State Port Corporation in August 2006. The remaining principal amount due was \$21,259,658. The interest rate on the restructured loan remains at 4.6%. The loan is currently to be repaid in four semi-annual payments of \$500,000, which commenced on March 31, 2007, and 40 semi-annual payments of \$808,798, commencing on March 31, 2009, with the final payment to be made on May 31, 2028.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note D - Accounts and Loans Receivable (Continued)**

At June 30, 2008 and 2007, the outstanding loan balance was \$20,887,406 and \$20,922,649, respectively.

The Diamond State Port Corporation will only be able to repay this loan with continued annual support from the General Assembly. While funds have not been committed, it is the expectation of management that the required support will be appropriated each year.

During fiscal year 2005, the Department reached a settlement agreement with CSX Transportation, Inc., (CSX) in which CSX agreed to fund a portion of the costs of reconstruction of certain railway bridges in the City of Wilmington, Delaware. The settlement was for \$6,000,000, and has been recorded as a loan receivable and deferred revenue in the accompanying balance sheets. Payments are received in 10 semi-annual installments of \$666,387, including interest at 3.91%. Revenue is recorded as actual expenses are incurred. Revenue recorded for the years ended June 30, 2008 and 2007 was \$1,300,470 and \$726,330, respectively. Remaining deferred revenue at June 30, 2008 and 2007 was \$3,013,425 and \$4,313,896, respectively. The Department has requested federal assistance with these projects. To the extent such federal assistance is received, the loan balance may be reduced in future periods by 75% of the total federal assistance received, in accordance with the settlement agreement. The loan balance at June 30, 2008 and 2007 was \$2,540,197 and \$3,738,399, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note E - Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 206,410,807	\$ 16,574,886	\$ -	\$ 222,985,693
Infrastructure	3,283,783,059	61,616,040	-	3,345,399,099
Construction in progress	<u>21,240,047</u>	<u>-</u>	<u>(21,240,047)</u>	<u>-</u>
Total capital assets not being depreciated	3,511,433,913	78,190,926	(21,240,047)	3,568,384,792
Capital assets being depreciated				
Buildings and improvements	55,050,604	22,502,235	(82,085)	77,470,754
Fixtures and equipment	<u>179,466,325</u>	<u>46,345,335</u>	<u>(7,204,967)</u>	<u>218,606,693</u>
Total capital assets being depreciated	234,516,929	68,847,570	(7,287,052)	296,077,447
Less: accumulated depreciation for				
Buildings and improvements	19,591,810	1,917,853	(56,247)	21,453,416
Fixtures and equipment	<u>95,272,224</u>	<u>15,144,477</u>	<u>(6,389,033)</u>	<u>104,027,668</u>
Total accumulated depreciation	<u>114,864,034</u>	<u>17,062,330</u>	<u>(6,445,280)</u>	<u>125,481,084</u>
Total capital assets being depreciated, net	<u>119,652,895</u>	<u>51,785,240</u>	<u>(841,772)</u>	<u>170,596,363</u>
Capital assets, net	<u>\$3,631,086,808</u>	<u>\$129,976,166</u>	<u>\$(22,081,819)</u>	<u>\$3,738,981,155</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note E - Capital Assets (Continued)**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 211,272,425	\$ 9,888,858	\$(14,750,476)	\$ 206,410,807
Infrastructure	3,255,998,018	27,785,041	-	3,283,783,059
Construction in progress	<u>15,311,430</u>	<u>5,928,617</u>	<u>-</u>	<u>21,240,047</u>
Total capital assets not being depreciated	3,482,581,873	43,602,516	(14,750,476)	3,511,433,913
Capital assets being depreciated				
Buildings and improvements	54,857,775	192,829	-	55,050,604
Fixtures and equipment	<u>161,943,809</u>	<u>21,804,620</u>	<u>(4,282,104)</u>	<u>179,466,325</u>
Total capital assets being depreciated	216,801,584	21,997,449	(4,282,104)	234,516,929
Less: accumulated depreciation for				
Buildings and improvements	17,956,204	1,635,606	-	19,591,810
Fixtures and equipment	<u>86,397,455</u>	<u>12,739,159</u>	<u>(3,864,390)</u>	<u>95,272,224</u>
Total accumulated depreciation	<u>104,353,659</u>	<u>14,374,765</u>	<u>(3,864,390)</u>	<u>114,864,034</u>
Total capital assets being depreciated, net	<u>112,447,925</u>	<u>7,622,684</u>	<u>(417,714)</u>	<u>119,652,895</u>
Capital assets, net	<u>\$3,595,029,798</u>	<u>\$51,225,200</u>	<u>\$(15,168,190)</u>	<u>\$3,631,086,808</u>

Depreciation expense for fiscal years 2008 and 2007 was \$17,062,330 and \$14,374,765, respectively.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note F - Changes in Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds, gross	\$1,018,815,000	\$ 84,720,000	\$(108,960,000)	\$ 994,575,000	\$73,510,000
Deferred amount on refunding	<u>-</u>	<u>(1,955,434)</u>	<u>16,487</u>	<u>(1,938,947)</u>	<u>(296,772)</u>
Revenue bonds, net	1,018,815,000	82,764,566	(108,943,513)	992,636,053	73,213,228
General obligation bonds	3,382,962	-	(599,956)	2,783,006	676,105
Bond issue premium, net of accumulated amortization	29,353,907	5,110,752	(6,100,095)	28,364,564	6,778,782
Insurance loss reserve	4,835,000	3,223,666	(3,627,666)	4,431,000	1,888,651
Post-employment benefits	-	35,950,386	(10,253,142)	25,697,244	-
Compensated absences	<u>13,623,388</u>	<u>122,330</u>	<u>-</u>	<u>13,745,718</u>	<u>4,148,180</u>
Long-term liabilities	<u>\$1,070,010,257</u>	<u>\$127,171,700</u>	<u>\$(129,524,372)</u>	<u>\$1,067,657,585</u>	<u>\$86,704,946</u>

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$953,265,000	\$215,335,000	\$(149,785,000)	\$1,018,815,000	\$67,640,000
General obligation bonds	4,248,071	-	(865,109)	3,382,962	599,955
Bond issue premium, net of accumulated amortization	30,894,855	6,179,669	(7,720,617)	29,353,907	6,623,371
Claims and judgments	16,689,789	2,727,921	(14,582,710)	4,835,000	2,457,537
Compensated absences	<u>14,474,818</u>	<u>-</u>	<u>(851,430)</u>	<u>13,623,388</u>	<u>4,013,768</u>
Long-term liabilities	<u>\$1,019,572,533</u>	<u>\$224,242,590</u>	<u>\$(173,804,866)</u>	<u>\$1,070,010,257</u>	<u>\$81,334,631</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note G - General Obligation Bonds Outstanding**

General obligation bonds outstanding at June 30, 2008 and 2007 are detailed as follows:

<u>Sale #</u>	<u>Description and Interest Rates</u>	<u>Maturity Date (Fiscal Year)</u>	<u>Balance Outstanding</u>	
			<u>June 30, 2008</u>	<u>June 30, 2007</u>
194	GO 2005B, 5.00%	2024	\$ 802,982	\$ 911,910
191	GO + Refunding 2004A, 3.00-6.00%	2024	90,098	105,115
188	GO Refunding 2003B, 4.00-5.00%	2012	1,678,526	2,071,687
185	GO + Refunding 2002A, 4.00-5.25%	2023	211,400	264,250
177	GO 1997A, 5.00%	2007	<u>-</u>	<u>30,000</u>
	Totals		2,783,006	3,382,962
	Less: current portion		<u>676,105</u>	<u>599,955</u>
	Long-term portion		<u>\$2,106,901</u>	<u>\$2,783,007</u>

The general obligation bonds are direct obligations of the State of Delaware and are secured by the full faith and credit of the State. Only that portion of the bonds attributable to the Department has been reflected in these financial statements.

The annual requirement to amortize all general obligation bonds payable as of June 30, 2008 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2009	\$ 676,105	\$120,200	\$ 796,305
2010	655,588	86,522	742,110
2011	663,331	56,194	719,525
2012	346,503	30,923	377,426
2013	195,189	17,951	213,140
2014 - 2015	<u>246,290</u>	<u>13,914</u>	<u>260,204</u>
	<u>\$2,783,006</u>	<u>\$325,704</u>	<u>\$3,108,710</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding**

Revenue bonds outstanding at June 30, 2008 and 2007 are detailed as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding	
			2008	2007
SENIOR BONDS				
1997/2017	\$120,640,000	Transportation System Senior Revenue Bonds, 1997 Series, 5.00%	\$ 3,885,000	\$ 7,550,000
1998/2016	60,560,000	Transportation System Senior Revenue Bonds, 1998 Series, 5.50%	7,450,000	51,985,000
2000/2020	83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	11,160,000	14,520,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50-5.00%	31,580,000	34,910,000
2002/2008	43,015,000	Transportation System Senior Revenue Bonds, 2002 Series, 5.00%	5,790,000	11,305,000
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00-5.25%	105,710,000	112,910,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 4.50-5.00%	202,295,000	225,055,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 3.00-5.00%	157,070,000	160,705,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.00-5.00%	148,000,000	149,000,000
2006/2026	127,445,000	Transportation System Senior Revenue Bonds, 2006 Series, 3.50-5.00%	124,990,000	127,445,000
2007/2021	87,890,000	Transportation System Senior Revenue Bonds, 2007A Series, 4.00-5.00%	87,685,000	87,890,000
2008/2028	84,720,000	Transportation System Senior Revenue Bonds, 2008A Series, 4.00-5.00%	84,720,000	-



**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

<u>Date of Issue/Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Interest Rates</u>	<u>Balance Outstanding</u>	
			<u>2008</u>	<u>2007</u>
JUNIOR BONDS				
2002/2009	\$48,120,000	Transportation System Junior Revenue Bonds, 2002 Series, 5.00%	\$ <u>24,240,000</u>	\$ <u>35,540,000</u>
		Totals, gross	994,575,000	1,018,815,000
		Less: deferred amount on refunding	<u>1,938,947</u>	<u>-</u>
		Totals, net	992,636,053	1,018,815,000
		Less: current portion	<u>73,213,228</u>	<u>67,640,000</u>
		Long-term portion	<u>\$919,422,825</u>	<u>\$951,175,000</u>

The Transportation System Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. Summary financial information for the Trust Fund was as follows at June 30,:

	<u>2008</u>	<u>2007</u>
<b><i>Condensed Balance Sheets</i></b>		
Assets		
Current assets	\$ 198,914,693	\$ 278,452,273
Capital assets	1,063,882,351	1,015,468,412
Other assets	<u>71,732,733</u>	<u>70,041,372</u>
Total assets	1,334,529,777	1,363,962,057
Liabilities		
Current liabilities	122,625,608	127,267,319
Noncurrent liabilities	<u>943,457,347</u>	<u>977,000,883</u>
Total liabilities	<u>1,066,082,955</u>	<u>1,104,268,202</u>
Net Assets		
Invested in capital assets, net of related debt	56,797,068	37,595,366
Unrestricted	62,343,943	69,270,051
Restricted	<u>149,305,811</u>	<u>152,828,438</u>
Total net assets	<u>\$ 268,446,822</u>	<u>\$ 259,693,855</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

	<u>2008</u>	<u>2007</u>
<b><i>Condensed Statements of Revenues, Expenses, and Change in Net Assets</i></b>		
Operating revenues (pledged against bonds)	\$ 370,814,038	\$ 332,179,720
Other operating revenues	47,562,631	37,407,011
Depreciation expense	(189,589)	(190,452)
Other operating expenses	<u>(394,010,564)</u>	<u>(384,067,953)</u>
Operating income (loss)	24,176,516	(14,671,674)
Nonoperating revenues (expenses)		
Investment income (pledged against bonds)	10,776,335	14,774,453
Other investment income	1,322,399	963,619
Interest expense	(38,305,211)	(43,207,653)
Transfer from DelDOT	5,093,131	5,494,308
Transfer from State General Fund	<u>5,689,797</u>	<u>79,408,528</u>
Change in net assets	8,752,967	42,761,581
Beginning net assets	<u>259,693,855</u>	<u>216,932,274</u>
Ending net assets	<u>\$ 268,446,822</u>	<u>\$ 259,693,855</u>
<b><i>Condensed Statements of Cash Flows</i></b>		
Net cash provided by (used in)		
Operating activities	\$ 14,112,184	\$ (19,812,107)
Noncapital financing activities	10,782,928	84,902,836
Capital and related financing activities	(116,492,204)	14,246,814
Investing activities	<u>93,941,068</u>	<u>(74,306,596)</u>
Net increase	2,343,976	5,030,947
Beginning cash and cash equivalents	<u>7,472,006</u>	<u>2,441,059</u>
Ending cash and cash equivalents	<u>\$ 9,815,982</u>	<u>\$ 7,472,006</u>

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State of Delaware or of any such political subdivision.

The Authority had a total of \$65,373,700 and \$62,938,525 in authorized but unissued revenue bonds at June 30, 2008 and 2007, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note H - Revenue Bonds Outstanding (Continued)**

The annual requirement to amortize all revenue bonds payable as of June 30, 2008 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2009	\$ 73,213,228	\$ 43,619,149	\$ 116,832,377
2010	74,089,970	41,794,915	115,884,885
2011	65,414,182	38,379,758	103,793,940
2012	66,074,360	35,101,071	101,175,431
2013	65,505,540	31,809,002	97,314,542
2014 - 2018	301,513,773	113,137,743	414,651,516
2019 - 2023	237,720,000	49,197,653	286,917,653
2020 - 2028	105,730,000	8,595,298	114,325,298
2029 - 2033	<u>3,375,000</u>	<u>73,828</u>	<u>3,448,828</u>
	<u>\$992,636,053</u>	<u>\$361,708,417</u>	<u>\$1,354,344,470</u>

On April 11, 2007, the Trust Fund issued \$87,890,000 of Transportation System Senior Revenue Bonds, 2007A Series, to provide for an advance refunding of the following Transportation System Senior Revenue Bonds:

1997 Series	\$38,925,000
2001 Series	12,715,000
2002B Series	26,870,000
2003 Series	<u>9,905,000</u>
	<u>\$88,415,000</u>

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$2,803,107 and a reduction of \$3,225,552 in future debt service payments.

On June 11, 2008, the Trust Fund issued \$84,720,000 of Transportation System Senior Revenue Bonds, 2008A Series, to provide \$43,400,000 in new proceeds for transportation projects and \$41,320,000 for an advance refunding of the following Transportation System Senior Revenue Bonds:

1998 Series	<u>\$41,320,000</u>
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The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$2,331,457 and a reduction of \$2,395,586 in future debt service payments.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note I - Debt Defeasance**

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures.

For financial reporting purposes, the debt is considered defeased, and therefore, not reported as a liability. As of June 30, 2008 and 2007, the amount of defeased debt outstanding amounted to \$195,052,950 and \$229,220,000, respectively.

**Note J - Designated Net Assets**

For operations, unrestricted net assets designated by management were as follows at June 30,:

	<u>2008</u>	<u>2007</u>
<b>DTC Transit Funds</b>		
Designated as working capital for operations:	\$ 3,001,066	\$ 9,656,166
Designated as reserve for funding other post-employment benefits:	5,000,000	-
Designated as reserve for self insurance:	-	4,342,908
Unexpended appropriations authorized by the State budget bills were carried forward as a designated net asset. For the years ended June 30, 2008 and 2007, the DTC Transit Fund expended authorized appropriations amounting to \$71,153,800 and \$64,949,492, respectively. The remaining totals of budgeted appropriations to be paid in future periods are:	5,762,260	5,760,408
<b>Other Transportation Funds</b>		
Authorized appropriations expended to fund State highway administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2008 and 2007 were \$138,805,604 and \$157,947,082, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of:	<u>5,452,089</u>	<u>3,564,120</u>
Total designated net assets	<u>\$19,215,415</u>	<u>\$23,323,602</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note K - Restricted Net Assets**

Restricted net assets were as follows at June 30,:

	<u>2008</u>	<u>2007</u>
<b>Pension Funds</b>		
Amounts held in DTC pension fund	\$ 1,446,927	\$ 976,275
<b>Debt Service Funds</b>		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	95,104,326	91,270,440
<b>Debt Reserve Funds</b>		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	54,201,485	52,519,649
<b>Delaware State Infrastructure Bank</b>		
Amounts required by cooperative agreement with the Federal Highway Administration to be held to provide loans for transportation projects	-	9,038,349
<b>Highway Beautification Funds</b>		
Amounts held in trust to be used for highway beautification	<u>37,236</u>	<u>29,433</u>
Total restricted net assets	<u>\$150,789,974</u>	<u>\$153,834,146</u>

**Note L - DTC Union Contracts**

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007. As of October 30, 2008, DTC was still negotiating terms for a new contract with this union.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note L - DTC Union Contracts (Continued)**

Paratransit Specialists statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008. As of October 30, 2008, DTC was still negotiating terms for a new contract with this union.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2007 through December 31, 2009.

**Note M - Pension Plans**

Essentially all full-time Department employees are covered under the State of Delaware Defined Benefit Pension Plan (the Plan), with the exception of DTC employees, who are covered under separate plans (see Note N). The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds \$6,000 per calendar year. Contributions by the Department are based on percentages of total employee compensation as specified by the Office of Pension and Investments, who administers the Plan.

In addition to the Plan contribution, the Department makes contributions to finance the costs of Post Retirement Increases (PRI) and Retiree Health Insurance (RHI). PRI are granted by the General Assembly to members retired under the State Employees' Plan. The funding mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund administered by the Pension Board. When the Legislature grants an ad hoc increase, the actuarial impact of the increase is funded over five years.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note M - Pension Plans (Continued)**

The following trend information for the current and preceding two years was as follows as of June 30,:

<u>Fiscal Year</u>	<u>Annual Retirement Expense</u>	<u>Pension Plan</u>	<u>Employer Contribution Rate</u>		
			<u>PRI</u>	<u>RHI</u>	<u>Total</u>
2008	\$11,655,164	7.07%	2.52%	6.99%	16.58%
2007	11,094,079	6.69%	2.62%	6.64%	15.95%
2006	9,893,490	6.12%	2.60%	6.30%	15.02%

The State of Delaware does not maintain the Plan information by agency, and therefore, the Department's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904-2402.

**Note N - DTC Defined Benefit Pension Plans**

*Plan Descriptions*

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local #842 Amalgamated Transit Union and Local #32 Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note N - DTC Defined Benefit Pension Plans (Continued)**

*Funding Policy and Annual Pension Cost*

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows:

	<u>DTC Pension Plan</u>	<u>Contributory Pension Plan</u>
Contribution rates:		
Employer	*	5.00%
Participants	N/A	5.00%
Annual pension cost	\$768,204	\$440,338
Contributions made	\$800,040	\$879,154
Actuarial valuation date	7/01/07	1/01/08
Actuarial cost method	Frozen Initial Liability	Entry Age Normal
Remaining amortization period	18	15
Asset valuation method	Market	Five-Year Smoothed Market
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	4.50%	4.00%

Note: \* = Actuarially Determined and N/A = Not Applicable  
For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.



**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note N - DTC Defined Benefit Pension Plans (Continued)**

*Funding Policy and Annual Pension Cost (Continued)*

**Three-Year Trend Information**

	<u>Plan Year Ended</u>	<u>Contribution Made</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Asset</u>
DTC Pension Plan	06/30/2006	\$626,894	\$626,894	100.00%	\$ -
	06/30/2007	707,897	707,897	100.00%	-
	06/30/2008	800,040	768,204	104.14%	31,836
Contributory Plan	12/31/2005	748,661	542,133	138.10%	688,884
	12/31/2006	835,280	547,899	152.45%	976,275
	12/31/2007	879,154	440,338	199.65%	1,415,091

**Schedules of Funding Progress**

*DTC Pension Plan*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a - b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)</u>
07/01/2005	\$ 7,539,479	\$ 7,932,143	\$(392,664)	95.05%	\$8,019,950	(4.89)%
07/01/2006	8,709,127	9,076,068	(366,941)	95.96%	8,897,785	(4.12)%
07/01/2007	10,533,449	10,873,946	(340,497)	96.87%	9,993,019	(3.40)%

*Contributory Pension Plan*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a - b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)</u>
01/01/2008	\$26,949,255	\$27,608,650	\$(659,395)	97.61%	\$18,689,331	(3.53)%

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB)**

Essentially all full-time Department employees are covered under the State of Delaware Other Post-Employment Benefits Fund Trust (the OPEB Trust), with the exception of DTC employees, who are covered under a separate plan (see Note P).

*Plan Description*

On July 1, 2007, the OPEB Trust was established pursuant to Section 115 of the Internal Revenue Code and separate from the Delaware Public Employees' Retirement System (DPERS). The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State of Delaware. No stand-alone financial report is issued for the OPEB Trust, but the OPEB Trust is included in the Statewide Comprehensive Annual Financial Report, which will be available from the Division of Accounting.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans.

Membership of the plan consisted of the following at June 30, 2008:

Retirees and beneficiaries receiving benefits	16,644
Terminated plan members entitled to but not yet receiving the benefits	1,131
Active eligible plan members	<u>35,019</u>
Total	<u>52,794</u>

The Department has approximately 1,800 active eligible plan members, which is the basis on which plan costs are allocated.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB) (Continued)**

Substantially all of the State's employees become eligible for post-retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility

*Early Retirement:*

Age 55 with 15 years of service or any age with 25 years of service.

*Normal Retirement:*

Age 62 with five years of service or age 60 with 15 years of service or any age with 30 years of service.

Benefits

During the fiscal year ended June 30, 2008, the State provided health insurance options through several providers including Blue Cross Blue Shield's First State Basic Preferred Provider Organization (PPO), which allows them to receive both in- and out-of-network benefits; Blue Cross Blue Shield's HMO-Managed Care Plan (Blue Care) in which each member selects a primary care physician (PCP) to coordinate his/her healthcare needs; Blue Cross Blue Shield's Comprehensive Preferred Provider Organization (PPO) Plan; and Aetna's HMO, which offers all the advantages of a national health plan and local customer service. Generally, these plans all include hospital, medical, mental health, substance abuse, and prescription drug benefits.

Spouse and Survivor Coverage

Both are available under any of the plan options with similar retiree contributions.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB) (Continued)**

Employee Contributions

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service, as follows:

<u>Years of Service</u>	<u>Percent of Premium Paid by State</u>
Less than 10	0%
10 - 14	50%
15 - 19	75%
20 or more	100%

*Funding Policy*

The State of Delaware funds the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State statute Title 29 of the Delaware Code c.52, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the trust financial statements. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the Trust.

*Contributions*

The contribution rates for the employer and retiree are established annually by the budgeting process of the State of Delaware. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percentage of covered payroll, with an additional amount

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB) (Continued)**

*Contributions (Continued)*

to pre-fund benefits, which is not actuarially determined. Participating employers, including the Department, were required to contribute .54% of the annual covered salary in 2008. For fiscal year 2008, the State contribution in relation to the annual required contribution of the employer (ARC) totaled \$183.2 million, which included an ad hoc payment of \$30.5 million from healthcare program savings. The portion of the contribution allocated to the Department for fiscal year 2008 was \$9.5 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled \$3.5 million. Additionally, during fiscal year 2008, the net amount of \$34.2 million was transferred to the OPEB Trust from the former State Employees' Health Insurance Premium Fund.

*Annual OPEB Cost and Net OPEB Obligation*

The State's annual OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with GASB Statement 45 parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation. The following table shows the components of the State's annual OPEB cost for the year, the amount actually contributed to the plan, and the State's net OPEB obligation, as well as the amounts allocated to the Department (dollar amounts in millions):

	<u>State Total</u>	<u>Department Allocation</u>
Net OPEB obligation as of June 30, 2007	\$ 0.0	\$ 0.0
Annual required contribution	464.6	25.2
Adjustment to annual required contribution	<u>0.0</u>	<u>0.0</u>
Annual OPEB cost	464.6	25.2
Employer contributions	<u>(183.2)</u>	<u>(9.5)</u>
Net OPEB obligation as of June 30, 2008	\$ <u>281.4</u>	\$ <u>15.7</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB) (Continued)**

*Annual OPEB Cost and Net OPEB Obligation (Continued)*

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 are as follows (dollar amounts in millions):

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	\$25.2	38%	\$15.7

*Funded Status and Funding Progress*

As of June 30, 2008, the most recent actuarial valuation date, the plan was 1.4% funded. The actuarial accrued liability for benefits was \$5,489 million, and the actuarial value of assets was \$79 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,410 million for the State. The covered payroll (annual payroll of active employees covered by the plan) was \$1,770 million, and the ratio of the UAAL to the covered payroll was 306%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note O - Other Post-Employment Benefits (OPEB) (Continued)**

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.0% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9.0% with an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75% rate of salary increase.

**Note P - DTC Post-Employment Benefits**

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirement of GASB Statement No. 45 during the year ended June 30, 2008, DTC recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on DTC's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

*Plan Description.* DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note P - DTC Post-Employment Benefits (Continued)**

after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of service or age 62 with five years of service for noncontract employees. Disabled employees must reach retirement eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive \$6,000 in coverage. Once the participant reaches age 70, the coverage drops to \$5,000. Each participant must contribute \$0.43 per month per \$1,000 of coverage to receive the benefit.

The number of participants is 718 active employees and 105 retirees as of May 1, 2008, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

*Funding Policy.* DTC currently pays for post-employment healthcare benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were \$723,447 and \$612,415 for the years ended June 30, 2008 and 2007, respectively.

*Annual OPEB Cost and Net Obligation.* DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.



**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note P - DTC Post-Employment Benefits (Continued)**

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation:

Annual required contribution	\$10,767,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	10,767,000
Contributions made	<u>(724,000)</u>
Increase in net OPEB obligation	10,043,000
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u>\$10,043,000</u>

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	\$10,767,000	6.7%	\$10,043,000

*Funded Status and Funding Progress.* As of June 30, 2008, the plan was zero percent funded. The actuarial accrued liability was \$76,135,000, which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was \$29,535,214, and the ratio of the UAAL to the covered payroll was 258%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note P - DTC Post-Employment Benefits (Continued)**

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2008 actuarial valuation, the projected unit credit method was used with linear pro-rata to assumed benefit commencement. The actuarial assumptions included a 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 9% initially, reduced by decrements to 7.10% after ten years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

**Note Q - Commitments and Contingencies**

*Construction Commitments*

The Department had contractual commitments of \$268,422,506 and \$258,835,769 for construction of various highway projects at June 30, 2008 and 2007, respectively. Current and future appropriations will fund these commitments as work is performed.

*Litigation*

The Department is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Department.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note R - Risk Management**

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage.

*Workers' Compensation Insurance*

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

For years prior to 2003, DTC established workers' compensation loss contingency reserves based upon insurance carriers' actuarial reviews. Benefit claims in an amount of \$100,000 or less per person, per coverage year are paid from the workers' compensation loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For fiscal year 2003, DTC changed its coverage to a first dollar program. Also, all claims were subject to a \$5,000 deductible for the medical portion of a claim. All other expenses related to a claim were covered by the insurance carrier.

Subsequent to fiscal year 2003, DTC changed its coverage and is insured through the State of Delaware. Under the State program, DTC pays a premium calculated as \$1.45 and \$1.60 per \$100 of payroll for the years ended June 30, 2008 and 2007, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves were established.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note R - Risk Management (Continued)**

*Auto Insurance*

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss reserves that are based upon actuarial reviews were established by DTC.

For years prior to 2003, DTC would establish auto loss reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of \$100,000 or less per incident, per coverage year were paid from the auto loss reserve funds. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

For 2003 and subsequent years, DTC has established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss reserve insurance liabilities for each of the years based upon actuarially determined valuations assuming DTC's maximum liability exposure to be \$300,000 per occurrence (this reflects the sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329).

For individual claims in excess of the sovereign immunity cap, DTC retained a maximum amount of loss based upon their self-insured retention program, and the balance would be covered by commercial insurance.

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note R - Risk Management (Continued)**

*Auto Insurance (Continued)*

	Initial Loss Reserve Insurance Liability <u>Established</u>	Maximum Amount of Loss Under Self-Insured Retention Program <u>(Per Occurrence)</u>	Excess Commercial Coverage <u>(Aggregate)</u>
2003	\$2,561,000	\$1,300,000	\$10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000
2007 (07/01/06 – 01/14/07)	2,607,350	2,300,000	5,000,000
2007 (01/15/07 – 06/30/07)	*	900,000	100,000
2008	3,106,000	900,000	100,000

\* Initial loss reserve established at July 1, 2006 in the amount of \$2,607,350 for entire fiscal year.

The components of the remaining insurance loss reserve were as follows at June 30,:

	<u>2008</u>	<u>2007</u>
Auto loss reserve remaining for fiscal year 2008	\$1,827,000	\$ -
Auto loss reserve remaining for fiscal year 2007	1,367,000	2,304,000
Auto loss reserve remaining for fiscal year 2006	943,000	1,381,000
Auto loss reserve remaining for fiscal year 2005	187,000	535,000
Auto loss reserve remaining for fiscal year 2004	71,000	475,000
Auto loss reserve remaining for fiscal year 2003	31,000	80,000
Auto loss reserve remaining for fiscal year 2002	-	20,000
Auto loss reserve remaining for fiscal year 2000	-	32,000
Auto loss reserve remaining for fiscal year 1999	<u>5,000</u>	<u>8,000</u>
	<u>\$4,431,000</u>	<u>\$4,835,000</u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note R - Risk Management (Continued)**

*Auto Insurance (Continued)*

Changes in the balances of total claim liabilities during fiscal years 2008 and 2007 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance July 1</u>	<u>Current Year Estimated Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Ending Balance June 30</u>
2008	\$4,835,000	\$2,328,024	\$(2,732,024)	\$4,431,000
2007	\$5,459,020	\$2,204,799	\$(2,828,819)	\$4,835,000

**Note S - Operating Leases**

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$1,996,488 and \$1,850,661 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2008 are as follows:

2009	\$ 310,702
2010	310,824
2011	313,022
2012	311,228
2013	274,342
2014 - 2018	399,485
2019 - 2020	<u>3,600</u>
	<u><b>\$1,923,203</b></u>

**State of Delaware  
Department of Transportation**

**Notes to Financial Statements (Continued)**

**See Independent Auditors' Report**

**Note S - Operating Leases (Continued)**

DTC has an operating lease agreement for transit vehicle tires, which will expire on May 19, 2009. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2008 and 2007, DTC incurred expenses related to this lease of \$190,077 and \$128,118, respectively.

**Note T - Contributions from the State General Fund**

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts from the State's General Fund to the Department at June 30,:

	<u>2008</u>	<u>2007</u>
Amounts transferred to the Revenue Fund:		
Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees	\$2,813,797	\$ 2,693,928
Amounts transferred to the Trust Fund:		
Supplemental appropriation from fiscal year Bond Bill	-	74,000,000
Division of Motor Vehicles	<u>2,876,000</u>	<u>2,714,600</u>
	<u>\$5,689,797</u>	<u>\$79,408,528</u>

**Note U - Subsequent Events**

On November 20, 2008, the Department successfully sold \$117.875 million of Delaware Transportation Authority Senior Revenue Bonds. The bond ratings were affirmed as AA+ and Aa3 by Standard & Poor's and Moody's Investors Service, respectively. Both ratings agencies also reported a "stable" outlook for the bonds. This sale resulted in \$115.336 million to be used for the State's capital transportation projects. The True Interest Cost was 4.72% for the sale. Barclays Capital, Inc. was the winning bidder among the four underwriting syndicates that participated in the bidding, and closing occurred on December 4, 2008.

## **Required Supplementary Information**



**State of Delaware  
Department of Transportation**

**Supplementary Information for Governments  
That Use the Modified Approach for Infrastructure Assets**

**See Independent Auditors' Report**

		<u>Structural Rating Numbers &amp; Percentages for Bridges</u>					
		<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>BCR Condition Rating</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Good	6 - 9	1,131	77.6	1,112	78.5	1,048	76.3
Fair	5	261	17.9	245	17.3	243	17.7
Poor	0 - 4	<u>65</u>	<u>4.5</u>	<u>60</u>	<u>4.2</u>	<u>83</u>	<u>6.0</u>
Totals		<u>1,457</u>	<u>100.0</u>	<u>1,417</u>	<u>100.0</u>	<u>1,374</u>	<u>100.0</u>

		<u>Deck Rating Numbers &amp; Percentages for Bridges</u>					
		<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>OPC Condition Rating</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>
Good	6 - 9	6,809,939	93.4	6,860,141	94.4	6,808,227	94.0
Fair	5	450,384	6.2	383,680	5.3	390,978	5.4
Poor	0 - 4	<u>29,590</u>	<u>0.4</u>	<u>24,111</u>	<u>0.3</u>	<u>42,604</u>	<u>0.6</u>
Totals		<u>7,289,913</u>	<u>100.0</u>	<u>7,267,932</u>	<u>100.0</u>	<u>7,241,809</u>	<u>100.0</u>

		<u>Centerline Mile Numbers &amp; Percentages for Roadways</u>					
		<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>OPC Condition Rating</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>
Good	3.0 - 5.0	3,071	68.9	3,055	68.6	3,070	69.0
Fair	2.5 - 3.0	935	21.0	933	20.9	914	20.5
Poor	Below 2.5	<u>448</u>	<u>10.1</u>	<u>466</u>	<u>10.5</u>	<u>469</u>	<u>10.5</u>
Totals		<u>4,454</u>	<u>100.0</u>	<u>4,454</u>	<u>100.0</u>	<u>4,453</u>	<u>100.0</u>

Comparison of Estimated-to-Actual Maintenance / Preservation (in Thousands)\*

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Estimated	<u>\$197,301</u>	<u>\$129,138</u>	<u>\$135,991</u>	<u>\$138,517</u>	<u>\$122,662</u>
Actual	<u>\$271,333</u>	<u>\$256,571</u>	<u>\$211,347</u>	<u>\$311,397</u>	<u>\$133,765</u>

\* The estimated expenditure represents annual Bond Bill authorizations. The actual expenditure represents the current year spending, which includes cumulative authorizations.

**State of Delaware  
Department of Transportation**

**Supplementary Information for Governments  
That Use the Modified Approach for  
Infrastructure Assets (Continued)**

**See Independent Auditors' Report**

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the FHWA Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2008 is not available.

## **Additional Information**

**State of Delaware  
Department of Transportation**

**Schedule of Revenue Bond Coverage**

**June 30, 2008  
See Independent Auditors' Report**

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Department. Further information for the Department may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

(in Thousands)

Fiscal Year	Gross Pledged Revenue	Debt Service Requirements			Coverage*
		Principal	Interest	Total	
1999	\$ 268,650	\$ 33,300	\$ 32,718	\$ 66,018	4.07
2000	292,201	35,330	30,809	66,139	4.42
2001	293,026	35,315	37,537	72,852	4.02
2002	303,794	39,565	35,269	74,834	4.06
2003	302,754	41,490	44,957	86,447	3.50
2004	308,091	47,640	38,176	85,816	3.59
2005	300,820	53,920	39,370	93,290	3.22
2006	337,350	58,445	40,573	99,018	3.41
2007	346,954	61,370	45,534	106,904	3.25
2008	381,590	67,640	46,210	113,850	3.35

\* The above coverage calculation represents the total gross pledged revenue as it relates to the total debt service requirement of all Senior and Junior Bonds. The calculation method used in the Official Statement per the Trust Agreement calculates only the Senior Bond debt service requirement and subtracts investment income revenue from gross pledged revenue.